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02-21-02

KIAWAH ISLAND UTILITY, INC.

DOCKET NO. 2001-164-W/S

PRE-FILED TESTIMONY OF TOWNSEND P. CLARKSON

BEFORE THE SOUTH CAROLINA PUBLIC SERVICE COMMISSION

Testimony Prepared: February 20, 2002

Hearing Date: March 13, 2002

THIS TESTIMONY IS FILED PURSUANT TO PSC ORDER DATED JANUARY 15, 2002. THE APPLICANT RESERVES THE RIGHT TO SUPPLEMENT THIS TESTIMONY AND TO PROVIDE REPLY TESTIMONY TO THE TESTIMONY THAT WILL BE PRE-FILED BY THE COMMISSION STAFF AND INTERVENORS.

MR. WALKER: Mr. Clarkson, would you please provide your full name, business address and position with Kiawah Island Utility, Inc.?

MR. CLARKSON: My name is Townsend P. Clarkson, and my business address is 7 Beachwalker Drive, Kiawah Island, South Carolina, 29455. I am the Treasurer of the Applicant, Kiawah Island Utility, Inc. Our service area is Kiawah Island, South Carolina. I am also the Chief Operating Officer of Kiawah Resort Associates, L.P., a Delaware Limited Partnership, known as KRA. KRA owns all of the outstanding shares of stock in Kiawah Island Utility, Inc. KRA purchased the shares in the Utility in 1988 when it acquired the real property and other assets of the then-developer of Kiawah Island and took over as developer.

MR. WALKER: What has happened with the Utility since its stock was acquired by KRA?

MR. CLARKSON: The Utility has continued to provide water and sewer services to the ever-increasing number of residents on Kiawah Island. An average of roughly 50-60

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MR. WALKER: In this last rate application did the Commission grant the full increase requested by the Utility?

MR. CLARKSON: No, the Commission granted an increase of just under 50% of the requested amount.

MR. WALKER: Why is the Utility again seeking an increase in its rates and charges?

MR. CLARKSON: The Utility is not profitable under the rates and charges now in effect. It needs to be profitable if it is to continue to meet the demands of its customers and maintains its facilities.

The Utility has provided excellent water and sewer service to its customer base. It has paid for significant additions to its plant, lines, and other facilities to provide these services. The cost of water from St. Johns Water Company, payroll and operating expenses continue to increase and the Utility needs to generate more income to cover these costs in order to continue to fulfill the expectations and demands of its customers.

The Commission has traditionally evaluated the Utility on an operating margin, rather than rate of return, basis. The Utility is like other businesses and needs to have a positive operating margin. Additionally, the Utility has never paid a dividend in the 14 years KRA has owned it.

MR. WALKER: Would you give us an example of costs of the Utility that have increased since the last rate case which was based on the test year of 1997?

MR. CLARKSON: Since 1997, the Utility's cost for purchased water from St. John's Water Company has increased 15.3%.

The Utility also pays a pro-rata share of St. Johns' operation and maintenance charges. Since the last rate application, this monthly charge has increased 68.9% from

houses are being built each year. This means that the Utility has constantly had to extend its service lines and expand the equipment and other facilities necessary to serve this increasing demand.

MR. WALKER: Who are the officers of the Utility Company?

MR. CLARKSON: The following persons serve as officers of the Utility :

Charles P. Darby, III	President
Leonard L. Long, Jr	Vice-President
Lisa Bryant	Secretary
Townsend P. Clarkson	Treasurer

The sole Director of the Utility Company is Charles P. Darby, III, Chairman of the Board. Becky Dennis is the Manager of the Utility .

MR. WALKER: How does the Utility obtain its potable water?

MR. CLARKSON: The Utility procures its potable water from St. Johns Water Company ("St. Johns"). St. Johns obtains its water from the City of Charleston Commissioners of Public Works ("CPW"). St. Johns' water lines run across Johns Island to a "delivery point" near Kiawah Island. The Utility has a main transmission line that extends from the delivery point to its plant on the island.

MR. WALKER: When was the last time the Utility applied to the PSC to increase its rates and charges?

MR. CLARKSON: The last rate application was submitted in October 1998 based on 1997 as the test year. The rates and charges that are currently in effect for the Utility were approved by the Commission on March 31, 1999, in Orders No. 1999-216 and 1999-349 in Docket No. 98-328-W/S.

\$5,887 to \$9,944. During 2001 alone, this monthly charge has increased from \$8,532 to \$9,944, an increase of 16.6%.

Since the Utility's last rate case there have also been several capital projects. The Utility's facilities have increased by \$746,000 for the Aquifer Storage Recovery System installed in 2000, and \$45,000 for the SCADA system installed in 1998. Subsequent to the end of the 2000 test year, there have been approximately \$150,000 of additional water and sewer capital expenditures and extraordinary maintenance projects which will impact the Utility's rate base. These major projects include the rebuilding of Surfwatch sewage pump station, replacing deteriorated hand wheels on the control structures, and rehabilitation of the headworks at the waste treatment facility.

In addition, the Utility must pay for capital costs, improvements, and maintenance of the 45 miles of transmission lines and related delivery facilities of St. Johns on Johns Island. The Utility's share of this expense of St. Johns is based on the Utility's percentage usage of the total potable water available at the delivery point. The Utility's share is currently 60%.

MR. WALKER: Does the Utility have bank loans that it must pay?

MR. CLARKSON: Yes. The Utility has loan agreements with Bank of America for capital improvement loans up to \$8.699 million, with a current outstanding principal balance on December 31, 2000, of \$6.7 million. The Utility pays Bank of America about \$520,000 in annual interest and about \$102,000 in annual principal. I would like to add that these loans allowed for nearly 20 capital improvements constructed to enhance quality and service to the customers of Kiawah Island Utility subsequent to KRA purchasing the utility in 1988. Less than \$1 Million is associated with plant in service prior to June 1988.

MR. WALKER: When do these loans with Bank of America mature?

MR. CLARKSON: They are due on March 1, 2005. The Utility has an option to extend the loan maturity date if the Utility can demonstrate sufficient profitability to Bank of America.

MR. WALKER: Do you believe the adjustment to the rate and charges proposed by the Utility to be reasonable?

MR. CLARKSON: I do. The financials submitted as part of the application tell the story. In its best years, the Utility has been only marginally profitable. In most years, the Utility has operated at a loss. The adjustments we are proposing accomplish a return and operating margin on a par with other private water and sewer companies. The owner is entitled to make a reasonable return as with any other business. Just as important, we believe that a financially self-sustaining utility is in the best interests of the Kiawah Community. Up to this point, the developer has subsidized the Utility.

MR. WALKER: Why is the Utility seeking approval of the pass through of increases in the cost of wholesale potable water from St. John's Water Company?

MR. CLARKSON: We believe that this pass through would eliminate the need to return to the Commission with rate applications as frequently as we are forced to do now. Almost every year St. Johns has increased the cost of the potable water sold to the Utility. This increase has a dramatic effect on the Utility's bottom line. The Utility is forced to seek an adjustment in rates to account for this significant increase in expense. With the pass through proposed by the Utility, the potable rate to our customers could be adjusted, with Commission oversight, on a timely basis and eliminate the immediate need for a rate application to compensate for this expense which everyone agrees is legitimate.

END OF DIRECT TESTIMONY